



**Director of  
Central  
Intelligence**

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# **National Intelligence Daily**

**Saturday  
27 October 1984**

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27 October 1984

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Top Secret



25X1

**Contents**

**Nicaragua: Election Prospects** ..... 1



25X1

**Saudi Arabia-Egypt: Oil Pricing Policy** ..... 3

**Notes**

**El Salvador: Supervisor of US Embassy Guards Killed** ..... 4

**Poland: Response to Death of Priest** ..... 4

**Iraq: Trouble in Kurdistan** ..... 5

**West Germany: Communal Elections Sunday** ..... 5

**USSR-Mongolia: Chernenko's Remarks** ..... 6

**Bulgaria: Reaction to Trial on Papal Attack** ..... 6

**In Brief** ..... 7

**Special Analyses**

**Eastern Europe-USSR: Discord in the Warsaw Pact**..... 9

**Egypt-Israel: "Cold Peace" Continues** ..... 12

**West Germany: Obstacles to Growth** ..... 14

**Lebanon: Economy Worsening** ..... 16

25X1

25X1



Top Secret



27 October 1984

Top Secret

## NICARAGUA:

## Election Prospects

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***The Sandinistas are making headway in keeping two small democratic parties in the election, but they are worried about possible voter apathy.*** [redacted]

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The leader of the left-of-center Popular Social Christians announced on Wednesday that he would remain in the race even if other parties withdraw. Earlier he had told the US Embassy that he would call a special meeting of the party leadership if the Democratic Conservative Party left the race. The Conservatives—the only other non-Marxist party left in the race—reportedly are trying to get the regime to agree to release political prisoners and give it 30 of the 90 assembly seats to stay in the election. [redacted]

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Crowds at Sandinista rallies are reportedly unenthusiastic, however, and government leaders have increased their public statements against voter abstention, according to the Embassy. A proregime newspaper has estimated an 85-percent turnout of the 1.5 million registered voters, but fragmentary results from an official poll obtained by the Embassy indicate a lower number. [redacted]

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Meanwhile, the insurgents of the Nicaragua Democratic Force plan a one-day cease-fire for the elections on 4 November. [redacted]

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[redacted] although Sandinista troop movements would remain subject to attack. Leaders of the movement do not plan to urge a boycott or the casting of blank ballots—as southern-based insurgents have done—because they believe this tactic could be overcome by electoral fraud. [redacted]

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**Comment:** The Popular Social Christians calculate that their chances of a good showing have improved since the Liberals' withdrawal. Nevertheless, they probably do not want to be the only non-Marxist party in the race and may hope their announcement will influence the Conservatives to stay in. [redacted]

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The regime realizes that foreign observers will regard a low turnout as a vote against it. The Sandinistas probably can mobilize people in the cities and will benefit from fear that proof of voting will be necessary to obtain food rations or other government services. [redacted]

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The insurgents' cease-fire would deflate the regime's claim that they are obstructing the election. The Sandinistas are unlikely to accept the proposal, however, and probably will try to provoke the guerrillas to discredit the cease-fire. [redacted]

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**SAUDI ARABIA-  
EGYPT:**

**Oil Pricing Policy**

***Saudi Arabia has approached Egypt as part of its continuing effort to bring the pricing and production policies of non-OPEC producers into line with OPEC.***

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Meanwhile, Yamani announced yesterday that Egypt, along with Mexico, would cut oil production to help stabilize the market.

**Comment:** Egypt prices its oil exports of about 210,000 barrels per day under short-term contracts and according to market rates. Currently its light crude is only 50 cents per barrel below the Saudi benchmark price, but the gap has been as high as \$4.

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Cairo probably will agree in principle to the Saudi request in return for financial and political support, but it would probably revert to its pragmatic pricing policy if market prices suddenly shift.

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The Egyptian production cuts will probably be small. Egypt's decision, nonetheless, could aid Yamani in his bid to convince other non-OPEC producers to help raise prices.

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27 October 1984

**Top Secret**

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**EL SALVADOR: Supervisor of US Embassy Guards Killed**

The killing of a Salvadoran supervisor of the US Embassy guards in San Salvador yesterday was the first direct attack on anyone connected to the Embassy since reports about terrorist threats to Americans surfaced last month. The supervisor was shot by three persons who claimed to be members of the Popular Liberation Forces—one of the two largest guerrilla factions. The murder occurred six blocks from the US Embassy. [REDACTED]

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**Comment:** It is unclear whether the perpetrators were mainline Popular Liberation Forces guerrillas, members of a dissident terrorist cell, or hirelings who murdered the victim's predecessor in April. Sources of the US defense attache report that other Salvadoran guerrilla groups are planning to attack a US military adviser and a hotel in San Salvador that houses US personnel. In addition, they are considering kidnaping foreign diplomats—possibly Americans. [REDACTED]

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**POLAND: Response to Death of Priest**

The apparent death of activist priest Father Popieluszko is likely to provoke some spontaneous demonstrations against the regime. Although no official announcement has been made, a source close to the church told a West European diplomat that the priest is dead and that the government has recovered his body. Premier Jaruzelski, in his opening remarks to the Central Committee plenum yesterday, called on the party to condemn the kidnaping. A group of Warsaw intellectuals has already publicly indicated they hold the government responsible for the crime because the regime created an atmosphere of hostility toward the opposition. [REDACTED]

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**Comment:** The authorities' speedy investigation and arrest of suspects are not likely to satisfy many segments of the populace. Demonstrations are most apt to occur after the religious services that probably will be held for the priest throughout the country. The government is probably urging the church to take steps to ensure calm by keeping these commemorative services to a minimum. [REDACTED]

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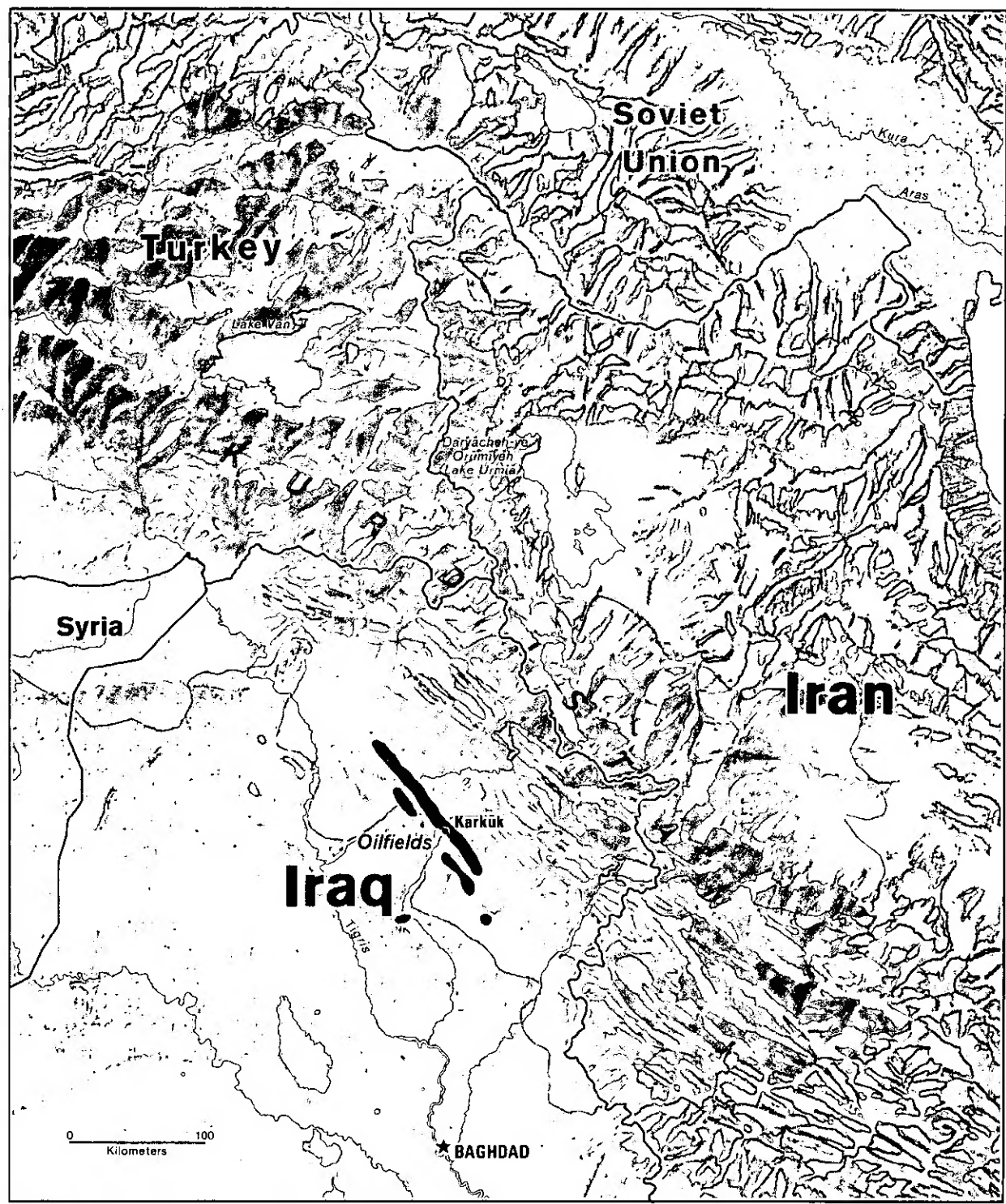
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27 October 1984

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### **IRAQ: Trouble in Kurdistan**

The US Interests Section in Baghdad reports a breakdown in truce talks between the government and Iraqi Kurdish opposition leader Jalal Talabani. Baghdad reportedly refused Talabani's demand that areas around oil-rich Karkuk be declared Kurdish.

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**Comment:** Baghdad will probably try to revive the truce talks because it cannot afford a resumption of Kurdish hostilities while it is fighting Iran. The government, however, is probably embarrassed to admit that it cannot control its Kurdish regions.

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### **WEST GERMANY: Communal Elections Sunday**

The elections for local offices in the state of Baden-Wuerttemberg this weekend have taken on added significance with the continuing Flick scandal and the resignation of Bundestag President Barzel. The Christian Democrats, led by the popular Minister-President Lothar Spaeth, have enjoyed a secure majority in this relatively prosperous state in West Germany's southwest corner.

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**Comment:** The elections could provide clues as to whether or not the scandal and Barzel's subsequent resignation have affected the popularity of Chancellor Kohl's Christian Democrats. Equally important will be the showing of the beleaguered Free Democrats, particularly because Baden-Wuerttemberg has been their stronghold. The Greens are likely to benefit from the scandals in Bonn and new reports of extensive acid rain damage to West German forests. The Greens have intensified their anti-NATO rhetoric recently, and significant successes by the party could pose problems because of the concentration of US military facilities in the state.

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27 October 1984

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**USSR-MONGOLIA: Chernenko's Remarks**

Soviet leader Chernenko attacked US policy in Asia, but he did not focus on East-West relations, at a Kremlin dinner for Mongolia's new General Secretary Batmonh yesterday. Chernenko repeated Soviet proposals for confidence-building measures in the Far East and endorsed recent initiatives on East Asia by Mongolia, Vietnam, and North Korea. He called for a normalization of Sino-Soviet relations and avoided criticizing current Chinese policies. Secretary Romanov participated in the talks between Chernenko and Batmonh. [redacted]

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**Comment:** Chernenko's remarks on China suggest that Moscow wants to create a favorable atmosphere for the negotiations between Deputy Foreign Ministers Ilichev and Qian now under way in Beijing. The participation of Romanov in a summit meeting with the head of another ruling Communist party is highly unusual. This action, like his position in a recent photograph of a Kremlin award ceremony, suggests that his political standing has improved. [redacted]

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**BULGARIA: Reaction to Trial on Papal Attack**

Sofia will intensify its media and diplomatic campaign in defense of the Bulgarian officials who were indicted yesterday for complicity in the attack on the Pope. The Bulgarian wire service yesterday denounced the trial as part of a conspiracy against Bulgaria "and socialism by circles in the US and NATO intent on worsening East-West relations." It said that now Bulgaria will work to prove its citizens' innocence and "expose the organizers of the anti-Bulgarian provocation." [redacted]

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**Comment:** Bulgaria will try to undermine the credibility of Mehmet Ali Agca—the main witness against the Bulgarians—by highlighting the contradictions in his testimony and charging that Italian officials fed him information about the Bulgarian defendants. Now that its efforts to stop the trial have failed, Sofia is likely to hold quasi-judicial proceedings to build a case for its innocence. It may seek Soviet support in citing the negative effects of the trial on East-West relations. Privately, the Bulgarians may threaten retaliation against Italian diplomats in Sofia. [redacted]

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**In Brief****Americas**

- Senior presidential advisers from **El Salvador** and **Honduras** meeting secretly on border dispute this weekend in neutral **Guatemala** . . . secrecy reflects desire to bypass public opinion and border commission to improve chances for compromise.

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- **Honduran** forces wrapping up operation against insurgent group trained in **Cuba** and **Nicaragua** . . . half of group's 60 members still at large, but more arrests likely soon . . .

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**East Asia**

- **Japanese** Prime Minister Nakasone hopes to wrap up his reelection as ruling party's president this weekend . . . last-minute snags in intense bargaining over key party and cabinet posts could delay announcement until next week.

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**South Asia**

- **Bangladesh** opposition parties expected to launch two-week noncooperation campaign against martial law regime today . . . President Ershad unlikely to crack down unless campaign turns violent . . . but will probably postpone December elections.

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**Middle East**

[REDACTED]

— **Israeli** Cabinet expected to approve plan tomorrow seeking US mediation with **Syria** for security arrangements in **Lebanon** . . . includes talks with Lebanese Army under UN auspices . . . no decision on redeployment or withdrawal of forces likely until diplomatic efforts exhausted. [REDACTED]

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— War-risk premiums on oil shipments from **Saudi** Gulf ports have doubled . . . follows three **Iranian** attacks on shipping in central Gulf since 10 October . . . impact on delivered cost of Saudi crude will be slight. [REDACTED]

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— **Sudanese** press reports **Algerian** presidential envoy has arrived in Khartoum . . . first such high-level Algerian visit to Sudan since 1981 . . . message from President Bendjedid to President Nimeiri could deal with coming OAU summit or possible Algerian interest in restoring relations with **Egypt**. [REDACTED]

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**Europe**

— **West German** Christian Democrats have nominated Philipp Jenninger to replace Rainer Barzel as Bundestag President . . . now State Minister in Chancellery and one of Chancellor Kohl's closest aides responsible for inner-German policy . . . Kohl probably hopes to assert greater control over parliamentary caucus. [REDACTED]

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— **Polish** leader Jaruzelski reportedly told Greek Premier Papandreu that eight political prisoners, including underground leaders Lis and Mierzejewski, may be freed before Christmas . . . consistent with other reports of gradual prisoner release . . . claim probably will be tested during coming visits of Western officials. (C)

— **Turkey's** Interior and Finance Ministers have resigned . . . action followed disclosure of customs scandal . . . incident unlikely to affect stability of government. [REDACTED]

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**Special Analysis****EASTERN EUROPE-  
USSR:****Discord in the Warsaw Pact**

*The recent visits of Romanian President Ceausescu to Bonn and Hungarian First Secretary Kadar to Paris suggest the Soviets face limits on their ability to inhibit all East European contacts with the West. They also suggest Moscow sees certain economic and political benefits in continued inter-European dialogue. Nevertheless, Moscow remains extremely wary of the effects of these ties on Eastern unity. Tensions will persist as the East Europeans grow increasingly resentful of direction from a Soviet leadership they view as weak and transitory. Moscow will keep pushing for a unified Warsaw Pact foreign policy, and will apply the most pressure over sensitive issues, such as those related to German questions.*

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Most East European leaders seem to agree that they need closer economic relations with the West, particularly since the USSR is becoming less helpful. They accept that the political overtones of those ties often annoy Moscow.

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Soviet concerns focus on two areas. First, the Soviets fear that political or humanitarian concessions by the East European allies in return for economic benefits assist Western efforts to pursue a differentiated policy toward the Warsaw Pact states. Second, West Germany's support for US deployments of INF missiles—added to perennial Soviet nervousness over German reunification and militarism—makes Moscow especially sensitive about contacts in which the two Germanys are involved.

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Soviet interests were threatened on both counts when Bonn announced in July that East Germany had made 11 concessions in return for a large loan. As a result, Moscow apparently forced East German leader Honecker to postpone his visit to West Germany last month. A few days later, in the interest of Warsaw Pact unity, party secretary Gorbachev leaned on Bulgaria's party chief Zhivkov to do likewise.

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**The Ceausescu and Kadar Visits**

Ceausescu made his trip to West Germany despite some pressure from the Soviets. Moscow has tolerated Ceausescu's deviations from Warsaw Pact policies over the years, in part because Romania's nonstrategic location makes conformity less urgent. Moreover, with no Soviet troops in Romania and with Ceausescu's regime in control at home, the Soviets again probably had little hope that persuasion would cause him to abandon his maverick role.

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The Soviets also may have anticipated that Ceausescu would be troublesome for Chancellor Kohl. And he was. Ceausescu squabbled with Kohl about arms control issues and Romanian harassment of ethnic Germans seeking to emigrate. The two leaders could not agree on a joint communique. [redacted]

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Moscow apparently did not try to dissuade Kadar from his trip to Paris. France, of course, is not an INF-basing country, and Moscow is seeking to improve its relations with President Mitterrand's government. [redacted]

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### **Prospects for Future Visits**

A number of East-West visits are scheduled in the next few months, and Soviet attitudes on them are difficult to predict. Regular contacts between East and West Germans have not diminished. [redacted]

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[redacted] This month the head of the Czechoslovak parliament went to Bonn, the Belgian Foreign Minister traveled to Sofia and Prague, and the Austrian Chancellor visited Sofia. [redacted]

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Poland, in particular, wants Western visitors, both so it can lobby for economic assistance and to demonstrate the end of its isolation following the declaration of martial law in 1981. The latter theme was highlighted last week during the visit of the Austrian Foreign Minister—the first to Poland by a Western foreign minister in 34 months—and by the visit of Greek Prime Minister Papandreu this week. [redacted]

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More controversial are the proposed visits by West German Foreign Minister Genscher to Poland in November and to Czechoslovakia in December. Although some Polish statements have laid a groundwork for postponement, preparations for the visit continue. If no Polish concessions on political or humanitarian issues seem likely, Moscow probably will not oppose the visit. [redacted]

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### **Continued Tensions**

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There are signs that East European leaders—most of whom have held power for more than a decade—are annoyed by the cavalier treatment of them by an unsettled Soviet leadership. [redacted]

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The East European officials are determined to have their views on major economic and security issues taken more seriously and, after a decade of improvement in East-West relations, have been unwilling in recent years to adopt Moscow's tough line. This was evident before the CEMA summit in June, when some of them banded together to resist Soviet demands to limit economic ties to the West. In addition, they reportedly lobbied in Warsaw Pact councils for a softer Soviet position on INF. [redacted]

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[redacted] Polish leader Jaruzelski and the Czechoslovak leadership were upset that they were not informed of Foreign Minister Gromyko's intention to meet with President Reagan. [redacted]

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[redacted]

The next generation of Soviet leaders appears more pragmatic on economic matters and may be more receptive to the East European quest for economic reform and closer relations with the West. Hungarians believe Gorbachev, currently a leading contender to succeed Chernenko, supports their reforms. [redacted]

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Nonetheless, tensions within the Warsaw Pact almost certainly will persist. The younger Soviet Politburo members appear to share the conservative political approach of their elders. Any change in their tactics toward Eastern Europe would not significantly alter Moscow's overall drive for unity and discipline among their allies. [redacted]

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**Special Analysis****EGYPT-ISRAEL:****"Cold Peace" Continues**

***Egypt is refusing to take steps to improve relations with Israel until the Israelis develop new policies to deal with the border dispute at Taba in the Sinai, the Israeli presence in southern Lebanon, and the Palestinian problem. Tel Aviv in turn is frustrated by the Egyptians' failure to respond to its conciliatory gestures and to move toward full normalization of relations, including the return of an Egyptian ambassador to Israel.***

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Egyptian officials have publicly stated that the national unity government in Tel Aviv is more flexible than its predecessor. Privately, however, they doubt that this government can make and carry out the hard decisions necessary to improve relations.

President Mubarak rejected Prime Minister Peres's call early this month for a summit meeting, insisting on greater assurance that such a meeting would lead to action on key bilateral problems. Mubarak is increasingly worried that his domestic opponents will gain public support by criticizing him for weakness in his dealings with Tel Aviv.

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**Impasse Over Taba**

Cairo is especially anxious for movement on the dispute over a strip of land at Taba because the principal opposition party, the New Wafd, recently launched a campaign accusing the government of yielding Egyptian territory to the Israelis. Earlier talks on Taba stalled when Israel insisted that the next meeting be held in Jerusalem. Cairo wants to settle the dispute through arbitration by a three-member panel composed of Israeli, Egyptian, and US representatives.

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The US Embassy in Tel Aviv reports the Israeli Cabinet is expected to discuss a position on the Taba issue soon.

Tel Aviv will try to negotiate joint ownership of the disputed strip. Cairo will reject this proposal, however, because it believes its own case is strong.

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**Tel Aviv's Views**

Israeli officials are concerned that even if they were to agree to Egypt's terms for resolving the Taba dispute, Cairo would demand other concessions before moving to normalize relations. They also fear that the position of moderates in the Israeli Cabinet would be damaged if concessions were made to Egypt without a promise by Cairo to act on normalization, and that Israeli public attitudes would harden toward Egypt and toward peace with the Arab world.

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These officials believe that Tel Aviv's decision not to close the Arab press agency in East Jerusalem and Defense Minister Rabin's moves to improve living conditions of West Bank Palestinians demonstrate the government's willingness to improve relations. In their view, it is now Cairo's turn for conciliatory gestures. One such move could be to grant the Israeli Ambassador access to top Egyptian officials.

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Tel Aviv supports Cairo's renewed ties with Amman as helpful to the peace process. The Israelis are concerned, however, that even though Mubarak has reaffirmed Egypt's commitment to the peace treaty with Israel, Egyptian officials are publicly accusing Israel of violating the spirit of the treaty and denouncing Israeli policies in its occupied territories.

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**Outlook**

The Egyptians have recently drawn increased attention to the Taba dispute as the test of Tel Aviv's willingness to improve relations. Cairo is unlikely to accept anything less than arbitration or negotiation leading to full restoration of Taba to Egypt, even if Tel Aviv drops its insistence on holding meetings in Jerusalem.

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Meanwhile, Cairo will hesitate to make conciliatory gestures to the Peres government for fear of endangering its newly strengthened Arab ties by appearing to endorse current Israeli policies.

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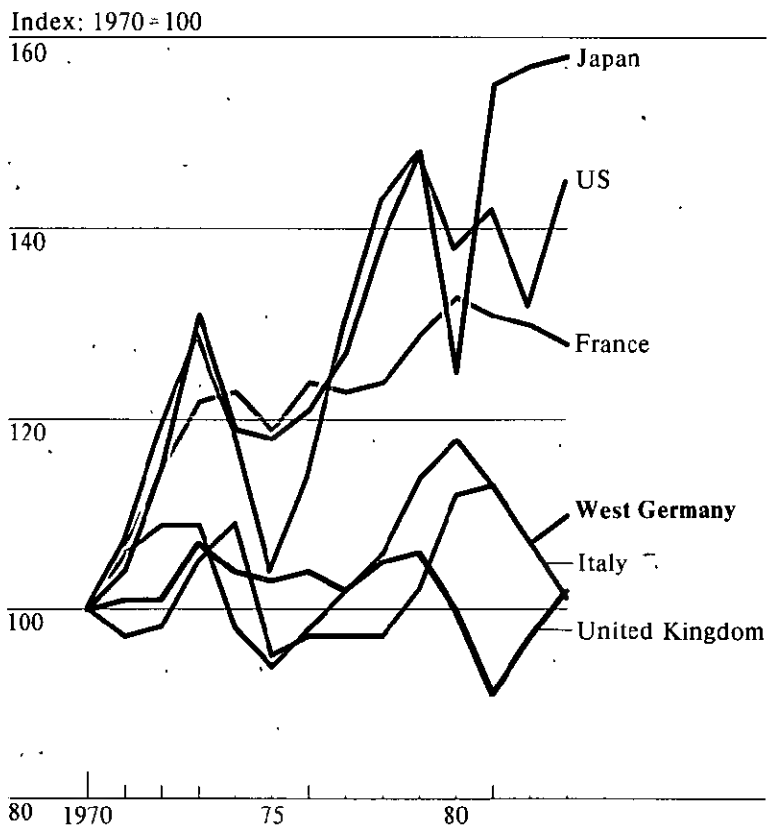
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**Selected Industrial Countries:  
Real Gross Fixed Investment, 1970-83**



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## Special Analysis

### WEST GERMANY: Obstacles to Growth

***A technological and structural gap has opened over the past decade that will not be closed soon, even though West Germany's standing as a major economic power behind the US and Japan is not in jeopardy.***

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West German competitiveness has faltered somewhat as a result of sluggish investment, declining productivity, and tardy adaptation to changing markets, especially in the high-technology sectors.

- Dwindling profits have eroded the major source of investment funding for West German firms. The poor profit situation has been made worse by inadequate and archconservative financial markets that discourage risk and stifle innovation.
- A labyrinth of taxes, laws, and regulations has encumbered industry and inhibited small-scale ventures that are often in the forefront of innovative technology.
- Remarkably generous social welfare benefits have discouraged investment by squeezing profit margins. These benefits also have limited labor mobility and eroded the traditional work ethic.
- Several decades of unprecedented industrial success have led to an attitude of overconfidence. Manufacturers have concentrated on refining established product lines while foreign competitors emphasized new production techniques, new products, and imaginative marketing.

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### Government Efforts

Chancellor Kohl's government has taken some first steps to restructure industry, increase competitiveness, revamp the social welfare program, and stimulate investment. Since assuming power two years ago, it has given priority to reducing the budget deficit in hope that fiscal consolidation would lower interest rates and revive investor confidence.

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Bonn also is encouraging development of advanced manufacturing technology by coordinating and funding private research and development and calling attention to West Germany's high-technology deficiencies and successes.

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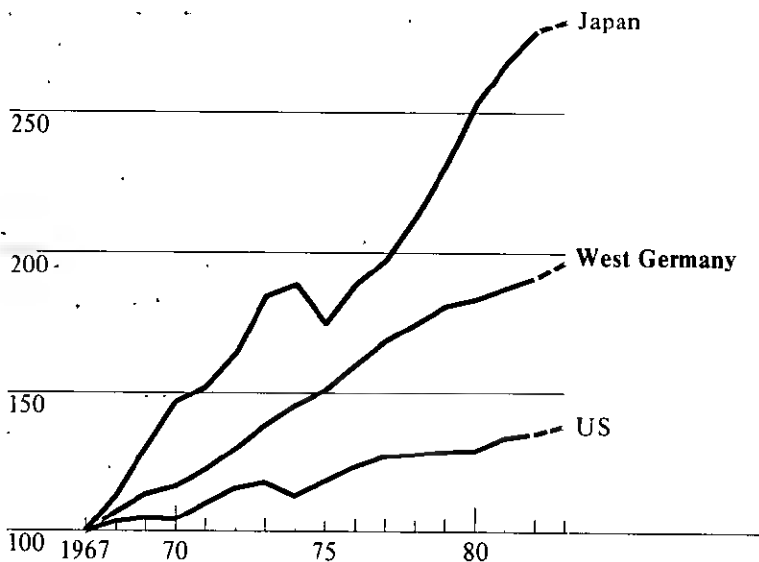
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**Productivity in Manufacturing,  
1967-83**

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Top Secret

27 October 1984

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**Top Secret**

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Kohl's policies of reducing other aspects of state involvement in the economy and promoting a more market-oriented environment, however, have made little progress. Rather, bureaucratic obstacles and the system of subsidies have increased under the Kohl government. [REDACTED]

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Moreover, after a bold start in trimming social programs, Bonn gave in to labor union and public pressure. Many signs suggest West German businessmen perceive a drift in economic policy and are delaying their longer range investment plans. [REDACTED]

### Outlook

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Real GNP growth probably will average only around 2.5 percent annually through 1987 in the likely absence of a sharp increase in world demand. This pace, far short of the "economic miracle" years of the 1950s and 1960s, means West German economic growth will lag behind probable US and Japanese GNP gains, and will not cut unemployment. [REDACTED]

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Over the longer term, the image of West German "stodginess"—of slow, unimaginative reaction to new trends—will invite questions about West Germany's ability to maintain its international competitiveness in a period of turbulent and accelerating economic change. [REDACTED]

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A sluggish West German economy raises serious implications for Bonn's relations with its West European neighbors and with the US. It would make the Kohl government even more likely to:

- Be reluctant to boost military spending and contributions to NATO programs.
  - Resist measures that could jeopardize its East Bloc markets.
  - Express concern about US budget deficits, interest rates, and the volatility of the dollar.
  - Show increasing sensitivity over bilateral trade differences.
- [REDACTED]

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## Special Analysis

### LEBANON:

#### Economy Worsening

*The Lebanese economy has deteriorated drastically over the last two years, and runaway deficit spending by the government is aggravating the situation. The government, preoccupied with its unstable political position, has virtually ignored the economic decline. The traditional lack of Lebanese Government involvement in the economy, however, thus far has insulated the government from blame for the nation's economic problems.*

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The government's lack of control over most of the country has allowed private militias to operate numerous illegal ports. These deprive the government of import levies—its main source of revenue—and finance the various militias.

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Government spending has continued virtually unchecked. This has forced it to increase borrowing from Lebanon's commercial banks and the Bank of Lebanon.

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The treasury is paying 13.5- to 14.5-percent interest on recent borrowing, and debt servicing alone is estimated to be double current government revenue.

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#### Industry and Unemployment

Industry is operating at a small fraction of its level before the Israeli invasion in the summer of 1982. Manufacturing facilities have been destroyed and foreign markets have been lost.

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Five months of sporadic fighting, a lack of raw materials, power interruptions, the emigration of skilled labor, and the loss of part of the domestic market to illegal imports have also contributed to the industrial decline.

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Until about two years ago Lebanon did not have an unemployment problem, partly because of the large migration of Lebanese workers to the Persian Gulf states. Following the fighting in Beirut last February and the destruction of surrounding facilities, however, the Lebanese Industrial Association estimated that 80 percent of the factories and workshops still operating had dismissed more than half their employees.

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**International Accounts Decline**

Lebanon's international accounts are also deteriorating. Its traditional trade deficit is no longer offset by surpluses in the service sector and the large inflows from Lebanese workers abroad, which have fallen by more than 50 percent. Lebanon will have a record current account deficit of perhaps \$1-1.2 billion this year.

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The exchange value of the Lebanese pound over the past year and a half has deteriorated with the country's security, balance of payments, and the economy as a whole. From 4.24 pounds to the US dollar at the end of June 1983, the pound has depreciated to 9 to the dollar on 20 October. The drop reflects growing concern about Lebanon's future and the resulting capital flight.

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The Bank of Lebanon has been attempting to shore up the pound in the exchange market since the beginning of June and has spent an estimated \$700-800 million—without significant effect. Foreign exchange reserves have declined nearly 50 percent since the end of last year to an estimated \$900 million to \$1 billion today.

**Implications**

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Lebanon's economic picture will remain bleak as long as political and security problems discourage private investment. The last two rounds of fighting, pitting Lebanese against Lebanese, were a psychological turning point. For the first time in the long conflict, the Lebanese business community became highly pessimistic and unwilling to risk the time, effort, and money needed to get the economy going again.

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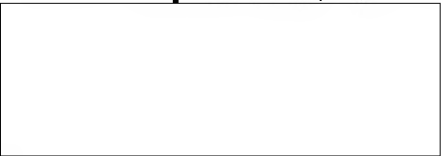
So far, the government has largely escaped the consequences of the many economic problems. The highly visible fall in the value of the pound, however, is putting some pressure on the government to improve the economy. The government cannot take effective measures, however, until the political situation is somehow resolved.

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